

**Before The  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

**REPLY COMMENTS OF  
THE NATIONAL ASSOCIATION  
OF STATE UTILITY CONSUMER ADVOCATES  
ON JOINT BOARD HIGH-COST SUPPORT PROPOSALS  
AND OTHER UNIVERSAL SERVICE ISSUES**

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## TABLE OF CONTENTS

I.	INTRODUCTION AND SUMMARY .....	1
II.	GENERAL ISSUES.....	4
III.	THE PROPOSALS OF JOINT BOARD MEMBER BILLY JACK GREGG ACHIEVE MANY OF THE UNIVERSAL SERVICE GOALS. ....	7
IV.	AT LEAST FOR NOW, THE COMMISSION SHOULD MAINTAIN A DISTINCTION BETWEEN RURAL AND NON-RURAL CARRIERS. ....	14
V.	THE OPPOSITION TO STATE ALLOCATION MECHANISMS IS WIDESPREAD AND REASONABLE. ....	18
VI.	CARRIERS' SUPPORT SHOULD BE BASED ON THEIR OWN COSTS; WITH THE EXCEPTION OF SMALL RURAL INCUMBENTS, "COSTS" SHOULD BE FORWARD-LOOKING.....	22
VII.	RURAL ILECS WHO SAY THAT ONLY THE CETC FUND NEEDS TO BE RESTRAINED ARE HALF RIGHT.....	28
VIII.	THE CONTRIBUTION BASE SHOULD BE EXPANDED.....	29
IX.	CONCLUSION.....	30

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ON JOINT BOARD HIGH-COST SUPPORT PROPOSALS**

**I. INTRODUCTION AND SUMMARY**

The National Association of State Utility Consumer Advocates (“NASUCA”)<sup>1</sup> submits these reply comments in response to comments on the four proposals for addressing high-cost universal service support set forth in the Public Notice released on August 17, 2005.<sup>2</sup> As expected, the stakeholders’ comments are not at all confined to the four corners of the four proposals, demonstrating again the interrelated and intertwined nature of universal service issues.

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<sup>1</sup> NASUCA is a voluntary, national association of 44 consumer advocates in 41 states and the District of Columbia, organized in 1979. NASUCA’s members are designated by the laws of their respective states to represent the interests of utility consumers before state and federal regulators and in the courts. *See, e.g.*, Ohio Rev. Code Chapter 4911; 71 Pa. Cons. Stat. Ann. § 309-4(a); Md. Pub. Util. Code Ann. § 2-205(b); Minn. Stat. Ann. Subdiv. 6; D.C. Code Ann. § 34-804(d). Members operate independently from state utility commissions, as advocates primarily for residential ratepayers. Some NASUCA member offices are separately established advocate organizations while others are divisions of larger state agencies (*e.g.*, the state Attorney General’s office). Associate and affiliate NASUCA members also serve utility consumers, but have not been created by state law or do not have statewide authority.

<sup>2</sup> FCC 05J-1.

The proposals are, of course, of interest, but the Joint Board and the Commission should have other pressing issues of higher priority. The first is to investigate the apparent decline in telephone subscribership over the last few years.<sup>3</sup> The second is to respond to the remand in *Qwest II* regarding the Commission's definitions of "reasonably comparable" and "sufficient" that are so key to the bases of the federal universal service fund ("USF").<sup>4</sup>

The Public Notice has provoked comment from a wide range of industry stakeholders, and the comments are even more diverse than would be expected.<sup>5</sup> One could attempt to parse each commenter's position from their industry, regulatory or consumer niche, but that would divert attention from the true task here: to ensure that the statutory universal service goals are met. But one thing most of the comments -- like NASUCA's -- have in common is their discussion of a broad range of universal service issues, with the proposals being to some extent secondary. Under the circumstances, however, that appears appropriate.

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<sup>3</sup> See NASUCA initial comments at 2.

<sup>4</sup> *Qwest Comm's Internat'l Inc. v. FCC*, 398 F.3d 1222 (10<sup>th</sup> Cir. 2005) ("*Qwest II*").

<sup>5</sup> The comments responded to here include those of AT&T Corp. ("AT&T"); Balhoff & Rowe, LLC ("Balhoff & Rowe"); BellSouth Corporation ("BellSouth"); CenturyTel, Inc. ("CenturyTel"); CTIA - The Wireless Association ("CTIA"); FairPoint Communications, Inc. ("FairPoint"); Frontier and Citizens ILECs ("Frontier"); General Communications, Inc. ("GCI"); Home Telephone Company, Inc. and PBT Telecom ("Home/PBT"); Iowa Utilities Board ("IUB"); Maine Public Utilities Commission and Vermont Public Service Board ("Maine/Vermont"); National Exchange Carrier Association, Inc. ("NECA"); National Telecommunications Cooperative Association ("NTCA"); New Jersey Division of the Ratepayer Advocate ("NJRPA"); Nextel Partners, Inc. ("Nextel Partners"); Organization for the Protection and Advancement of Small Telecommunications Companies ("OPASTCO"); Public Utility Commission or Oregon ("Oregon"); Qwest Communications International Inc. ("Qwest"); SBC Communications Inc. ("SBC"); Sprint Nextel Corporation ("Sprint"); SureWest Communications ("SureWest"); TDS Telecommunications Corp. ("TDS"); United States Telecom Association ("USTA"); Verizon; Western Telecommunications Alliance and Independent Telephone and Telecommunications Alliance ("WTA/ITTA"). NASUCA apologizes to any commenter not included here.

Unfortunately, however, the comments -- particularly those of the industry -- are far too long on rhetoric and far too short on verifiable data on current and projected rates and support to be of much real value. NASUCA attempted to do its best to present publicly available data on key issues.

After addressing some general issues, NASUCA reviews the comments directed at the proposal of Joint Board member Billy Jack Gregg. NASUCA as an organization has supported most of the elements of the Gregg proposal.<sup>6</sup> The arguments contra the Gregg proposal do not stand up to scrutiny.

These reply comments also address the errors in many of the comments' proposals to expeditiously combine the current rural and non-rural high cost mechanisms. What is needed instead is a finer distinction among carriers now lumped together in the rural category.

The one theme most commonly seen in the comments is opposition to the state allocation mechanism ("SAM") that is key to three of the proposals and a long-term component of Mr. Gregg's proposal. This opposition and questions about the SAMs comes from small carriers and large, from incumbents and competitors, from current and former state regulators. This does not bode well for the SAMs.

Next, NASUCA addresses the comments regarding which costs and whose costs should be used in calculating support. NASUCA reiterates its positions that each eligible telecommunications carrier's ("ETC's") support should be based on its own costs, and

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<sup>6</sup> The Maine/Vermont comments support the Universal Service Endpoint Reform Plan ("USERP"), two of whose authors are staff to those commissions, and the Oregon comments support the proposal of Oregon Commissioner Baum. Oregon at 6

that, except for the smallest rural carriers who should continue to have support based on embedded costs, all carriers should have support based on forward-looking costs.

These reply comments also address the need to expand the contribution base for the USF. This is contrasted with the *lack* of need to change the contribution mechanism from its current revenue basis to a connections- or numbers-based plan.

## **II. GENERAL ISSUES**

Some of the fundamental principles here are clear. Rural rates need to be affordable and reasonably comparable to urban rates. USF support needs to be specific, sufficient and predictable.<sup>7</sup> The question is, How do we get there?

These are issues that the Joint Board and the Commission have been struggling with essentially since the passage of the 1996 Act.<sup>8</sup> It is tempting to look at the four proposals on which the Joint Board requested comments as merely diversionary.<sup>9</sup> That is partly because of the magnitude of the issues that have been previously put out for comment, without Joint Board or without Commission resolution. But it is also because the proposals themselves significantly lack detail.<sup>10</sup>

Some commenters urge rejection of all the proposals.<sup>11</sup> Others are more charitable: NTCA, for example, says that it cannot endorse any one proposal in its

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<sup>7</sup> CenturyTel at 1, citing 47 U.S.C. §§ 254(b)(5) and (e).

<sup>8</sup> Previously, universal service efforts lacked the statutory definition and principles provided by the 1996 Act.

<sup>9</sup> See, e.g., FairPoint at 3.

<sup>10</sup> GCI at 1.

<sup>11</sup> See, e.g., Home/PBT at 3; OPASTCO at 2.

entirety, and Qwest says the Commission should adopt the best aspects of each proposal.<sup>12</sup> As discussed in NASUCA’s initial comments and in the next section to these reply comments, the proposal by Joint Board member Billy Jack Gregg hews closest to the statutory purposes. Yet the Gregg proposal is also not extensive enough to “solve” the universal service conundrum; more needs to be done. As Qwest also states, the Joint Board should “fill in any missing details.”<sup>13</sup> (Unfortunately, some of the “details” that Qwest proposes are fundamentally wrong.)

There are proposals in the comments that definitely should not or need not be done. Part of this comes from mistaking the fundamental purpose of the universal service provisions of the Act. For example, WTA/ITTA say that the purpose of the USF is the “promotion of investment in critical telecommunications infrastructure....”<sup>14</sup> Notably, WTA/ITTA do not cite to any specific provision of the law to support this theme, as they cannot. The Act does not require investment in infrastructure; such investment may, however, be the ultimate impact of support designed to make **rates** affordable and reasonably comparable, which is the real statutory purpose.

Another thing that § 254 does not require is the rate increases that some carriers say are required. This includes the achievement of the “objective rate benchmark” supported by, e.g., SBC and SureWest.<sup>15</sup> The IUB notes this potential in the proposals.<sup>16</sup>

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<sup>12</sup> NTCA at 2; Qwest at iv.

<sup>13</sup> Qwest at 11.

<sup>14</sup> WTA/ITTA at ii.

<sup>15</sup> SBC at 6; SureWest at 9.

<sup>16</sup> IUB at 2. Note that the Gregg proposal includes an overall revenue benchmark, rather than a directive to increase rates.

Rates increases may ultimately result from removing federal support for some companies; if such increases are reasonable under state law, they may be enacted. But they cannot be guaranteed. **If** the increases occur, and **if** those increases are substantial enough to make rural rates no longer affordable or no longer reasonably comparable to urban rates, **then** additional federal support may be necessary.

More generally, the NJRPA urges the Commission to examine the reasons for the increases in the USF.<sup>17</sup> The major reasons for the increases are adequately clear: the Commission's decision to move ostensibly implicit support from access charges into explicit support in the USF<sup>18</sup>; the decision to support CETCs based on the incumbent local exchange carrier's ("ILEC's") costs; the continuation of funding based on embedded costs for large rural ILECs; and the policy to support all lines supplied by all carriers to a single household. NJRPA also says that the Commission must "implement mechanisms to prevent unnecessary use of the fund."<sup>19</sup> NASUCA agrees.

SBC points out that the Tenth Circuit directed the Commission to develop a "complete plan for universal service" and that the Commission has nonetheless continued a "piecemeal" approach.<sup>20</sup> NASUCA joins SBC in this opinion. Understandably, however, we differ from SBC in many of the details of a proper complete plan.

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<sup>17</sup> NJPRA at 11.

<sup>18</sup> *In the Matter of Access Charge Reform*, CC Docket No. 96-262, 15 FCC Rcd 12962 (2000) ("CALLS Order"); *In the Matter of the Multi-Association Group Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, 16 FCC Rcd 19613 (2001) ("MAG Order"). The mandatory uniform bill-and keep proposals presented in the intercarrier compensation context essentially assume that the cost of access is zero, and that the entirety of access charges represent implicit support.

<sup>19</sup> NJRPA at 11.

<sup>20</sup> SBC at 2, citing *Qwest Corp. v. FCC*, 258 F.3d 1191, 1201 (10<sup>th</sup> Cir. 2001).

Balhoff & Rowe make a number of recommendations, many of which are general and not really assailable.<sup>21</sup> For example, the first recommendation is that reforms should be “adoptable, achievable, sustainable, and take into account the point at which reforms are commencing.”<sup>22</sup> Clearly, no stakeholder would deliberately set out to propose reforms that are not adoptable, not achievable, not sustainable or that ignore the current environment. Unfortunately, the degree to which any specific proposal meets these Balhoff & Rowe criteria is often in the eye of the beholder. It is also not really clear how the Balhoff & Rowe recommendations -- general or specific -- bring us any closer to resolving the issues of the Tenth Circuit remand, or to the directives of the statute that rates be affordable and reasonably comparable.

### **III. THE PROPOSALS OF JOINT BOARD MEMBER BILLY JACK GREGG ACHIEVE MANY OF THE UNIVERSAL SERVICE GOALS.**

It is notable that AT&T supports most of Mr. Gregg’s Stage One and Stage Two proposals.<sup>23</sup> Such support by AT&T will not, however, induce NASUCA to support adoption of the deeply-flawed Intercarrier Compensation Forum (“ICF”) plan touted by AT&T.<sup>24</sup>

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<sup>21</sup> The recommendations are listed at Balhoff & Rowe at 56-58.

<sup>22</sup> Id. at 56.

<sup>23</sup> AT&T at 2. It is interesting to note the significant differences between AT&T’s views and those of SBC, its possible parent corporation. See SBC at 3.

<sup>24</sup> AT&T at 2. Another interesting point is that SBC, although a member of the ICF, does not mention the ICF plan in its comments here.

Verizon also supports much of the Gregg proposals.<sup>25</sup> Verizon also correctly notes -- in apparent agreement with NASUCA -- the problems and over-funding attendant upon supporting multiple networks in high-cost areas.<sup>26</sup> Qwest describes the Joint Board's recommendation to limit support to one connection per household as "the most sensible solution to move the high cost fund toward its core objectives, while controlling the size of the fund."<sup>27</sup> As a fallback, Qwest says that "the Commission should limit support to at most one connection per ETC for each household."<sup>28</sup>

On the other side, Frontier focuses its opposition to the Gregg plan on study area consolidation, and on "disqualification from rural treatment of any study areas over 100,000 access lines."<sup>29</sup> Both views predict apocalyptic effects, without specific support. Both views are wrong.

With regard to study area consolidation, Frontier discusses only its New York operations, which, under the Gregg/NASUCA proposals, would be combined with Frontier's non-rural Rochester franchise.<sup>30</sup> As discussed in NASUCA's comments on the

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<sup>25</sup> Verizon at 2-3.

<sup>26</sup> Id. at 1-2, 6-9. It is gratifying that Verizon focuses on controlling the size of the fund (id. at 3-6), rather than on securing additional funding for itself. See, by contrast, Qwest at iv and 15, SBC at 3.

<sup>27</sup> Qwest at 13.

<sup>28</sup> Id. at 14. Verizon would address this problem "by limiting subsidy permits to one carrier per study area." Verizon at 9. Verizon appears to be focusing on rural companies' study areas (see id.), because it does not address the requirement of 47 U.S.C. § 214(e) that in non-rural carriers' territories, multiple ETC "shall" be designated.

<sup>29</sup> Frontier at [i]. Frontier's implication that the Gregg proposal treats rural carriers just like non-rural carriers ignores the numerous transitional distinctions between the two in Mr. Gregg's (and NASUCA's) proposals, discussed in the next section.

<sup>30</sup> Frontier at 4-6. Others, e.g., Balhoff & Rowe at 42-43, Home/PBT at 6-7, ICORE at 4-5, NECA at 6, TDS at 11-13, USTA at 5-6, also oppose consolidation of study areas but provide no examples that show likely untoward impacts. Notably, the Gregg/NASUCA proposal would have no impact on Home/PBT and many other rural telcos, including most members of WTA/ITTA.

rural high-cost fund, Frontier's New York rural franchises receive \$7.3 million in annual support.<sup>31</sup> Frontier assumes that including this rural territory in the Rochester model-based funding would leave its overall costs still below the statewide average.<sup>32</sup> Even if this is true, Frontier does not -- and probably cannot -- show, in fact, that the loss of this funding will result in its subsidiaries becoming "less economical in the absence of large rate increases," as Frontier claims<sup>33</sup> The \$7.3 million decrease in funding represents all of 71 cents per month for each of Frontier's New York lines.<sup>34</sup>

Frontier tellingly -- and overgenerally -- states, "[e]ven assuming [its companies] could win approval of the necessary rate increases, this state of affairs would not be in the public interest, and would make rural telephone service much less affordable."<sup>35</sup> If the rates increases could not be approved, would they be "necessary"? And "much less affordable" assumes both a magnitude of the increases and a current level of rates, for neither of which Frontier provides information. As for being in the public interest, Frontier apparently assumes that its current structure and support level represent the ultimate expression of the public interest. Hardly true.

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<sup>31</sup> Reply Comments of the National Association of State Utility Consumer Advocates on Rules Relating to Rural High-Cost Universal Service Support (December 14, 2004) ("NASUCA RHC Reply"), Appendix 4.

<sup>32</sup> See NASUCA Initial Comments, Appendix C at 3.

<sup>33</sup> Frontier at 5. Frontier does not reveal its current rates for these areas, so that there is a question whether, even with such increases, rates would not be affordable or reasonably comparable. If not, Frontier would be eligible for additional funding under the non-rural supplemental mechanism.

<sup>34</sup> See Attachment A.

<sup>35</sup> Frontier at 5.

TDS says that consolidating study areas would “reintroduce, at the state level, the implicit subsidies that Congress sought to eliminate under the 1996 Act.”<sup>36</sup> TDS apparently missed *Qwest II*, which found that Congress did not intend to eliminate implicit intrastate support through the Act.<sup>37</sup>

TDS also goes too far in criticizing the Gregg/NASUCA exemption of Alaska and insular areas from consolidation by claiming that the “unique characteristics” of Alaska and insular areas “exist across rural telephone company study areas generally.”<sup>38</sup> Surely TDS cannot be suggesting that its study areas in Tennessee and Wisconsin -- the only ones affected by NASUCA’s proposal -- have to work with permafrost, like companies in Alaska, or require all supplies to be brought in by sea or air, like Hawaii.

And WTA/ITTA also miss the point by using the example of a two-study area company, where the combined lines of the two areas total only 2,500. NASUCA’s proposal would have no impact on such a company. NASUCA’s proposal *would* impact the 4.5 million access lines of Verizon in California, the 860,000 Frontier access lines in New York, and the 560,000 ALLTEL access lines in Kentucky.

Attachment A is a presentation of the results of the Gregg/NASUCA proposals. The proposals decrease high-cost payments to 40 carriers in 26 states.<sup>39</sup> The impacted carriers serve an average of over 450,000 access lines, and range from just over 50,000

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<sup>36</sup> TDS at 12.

<sup>37</sup> *Qwest II*, 398 F.3d at 1222.

<sup>38</sup> TDS at 12.

<sup>39</sup> “Carrier” here includes all affiliates within a particular state.

access lines to almost 5,000,000 access lines. Most belong to large interstate holding companies.

NASUCA's proposals would reduce the rural high-cost fund by nearly \$221 million per year, or about 8.7%.<sup>40</sup> (This focus on the rural high-cost fund should not be viewed as meaning that there is no reduction possible in the non-rural high cost fund.<sup>41</sup>) However, NASUCA does not agree with Qwest that the fact that seven out of ten federal USF dollars go to rural carriers that serve only one in four rural customers in the country mean that current high cost support "clearly is not being spent in an efficient and equitable manner."<sup>42</sup> Although improvements in efficiency are likely, the current system which focuses on the customers of the smallest carriers is, at heart, entirely equitable.

The reduction per access line runs from less than a penny per month per access line, to \$7.78 per month per access line. The average is \$1.96 per month. If the states determine rate increases to be necessary due to the loss of this revenue, increases of such magnitude should not yield rates that are no longer affordable and reasonably comparable. If they do, the backstop federal "additional support" mechanism for all companies will be available for assistance.<sup>43</sup>

There is a single impact outlier, that being CenturyTel in Louisiana. It would apparently lose almost \$28 million in support per year, or \$17.70 per month per access

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<sup>40</sup> Based on the reported \$2.534 billion rural high-cost fund reported in USAC's 2004 Annual Report.

<sup>41</sup> See NASUCA Initial Comments, Appendix A.

<sup>42</sup> Qwest at 8.

<sup>43</sup> Order on Remand, FCC 03-249, 18 FCC Rcd 22259, ¶ 93.

line. The reasons for this level of support for a carrier with more than 100,000 access lines should be investigated.

Maine and Vermont are fairly erratic and conditional in their support for<sup>44</sup> -- and opposition to -- the Gregg proposal. They oppose consolidation of study areas and moving large rural carriers to cost because these measures “may be so controversial and cumbersome that they may undercut the Commission’s ability to reach the end point of the conversion to a unified mechanism,”<sup>45</sup> as if adopting USERP -- which they support<sup>46</sup> - - would be neither cumbersome nor controversial. It should also be recalled that, on the one hand, USERP requires the use of statewide average costs,<sup>47</sup> which is the ultimate consolidation of study areas. On the other hand, moving larger rural carriers to forward-looking costs is problematic only if the “end point” is the embedded cost scheme included in USERP.

Maine and Vermont oppose capping support upon competitive entry because “the most obvious problem with frozen support is its inability to respond to natural disasters”<sup>48</sup> as if the current mechanism -- or USERP for that matter -- were inherently any better able to respond to tragedies like hurricanes and devastating rainfall. A waiver process could deal with natural disasters. It is not necessary to forgo caps because of the possibility of

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<sup>44</sup> See Maine/Vermont at 7, 9, 10.

<sup>45</sup> Id. at 7.

<sup>46</sup> Id. at 11.

<sup>47</sup> FCC 05J-1, Appendix D, at 22. Hereafter, as in NASUCA’s initial comments, the first three proposals will be cited by author, e.g., Baum, Gregg and Nelson, and the fourth as USERP.

<sup>48</sup> Id. at 8.

such conditions. Indeed, the Commission has just made available \$211 million to the areas devastated by Hurricane Katrina through just such a waiver process.<sup>49</sup>

Further, the Maine and Vermont analysis falls apart in the statement that “[s]upport limited by a per-line freeze amount may not provide sufficient support to maintain affordable and reasonably comparable rates....”<sup>50</sup> Since neither the Commission nor the Joint Board has come up with definitions of “sufficient,” “affordable,” or “reasonably comparable” that will stand up on appeal, as Maine/Vermont acknowledge,<sup>51</sup> it is impossible to know whether *any* plan will meet the statutory goals. The establishment of a backstop federal “additional support” mechanism for all companies, which provides support if it is determined that specific rates are not affordable or reasonably comparable, may well be the best hope.

NTCA also opposes the per-line freeze for support upon competitive entry contained in the Gregg proposal. NTCA states, without explanation, that a freeze “would unjustifiably punish rural ILECs for providing affordable, reliable and quality services to rural consumers....”<sup>52</sup> NTCA proposes, instead, that the identical support rule be eliminated and that CETC support be based on their own costs.<sup>53</sup> NASUCA believes that these two solutions -- the per-line freeze and basing CETC support on CETC costs<sup>54</sup> -- are not mutually exclusive; they should both be adopted.

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<sup>49</sup> CC Docket No. 96-45, et al., Order (October 14, 2005) (FCC 05-178).

<sup>50</sup> Maine/Vermont at 8.

<sup>51</sup> Id. at 2-3.

<sup>52</sup> NTCA at 11.

<sup>53</sup> Id.

<sup>54</sup> The CETC support should be capped at the ILEC’s cost.

TDS opposes the per-line freeze because it supposedly will not allow “[i]nvesting in the network infrastructure and improvements necessary to deploy quality broadband services in rural areas....”<sup>55</sup> Perhaps TDS should become reacquainted with 47 U.S.C. § 254(e) and the Commission’s orders defining the services that are meant to be supported by federal funds.

Notably, TDS does not present any specific information from any of its state companies to demonstrate the actual or potential threat to its revenues from a per-line freeze. NTCA also presents no such information for its members.

#### **IV. AT LEAST FOR NOW, THE COMMISSION SHOULD MAINTAIN A DISTINCTION BETWEEN RURAL AND NON-RURAL CARRIERS.**

Smaller carriers and their representatives understandably object to the various proposals to combine the rural and non-rural mechanisms. Home/PBT point out the consequences of such a combination:

Either the size of the funding will explode to provide support to networks of larger carriers that do not require such funding to maintain affordable average rates or, if funding does not increase, smaller rural carriers will be left with insufficient funding to maintain affordable average rates within their rural networks.<sup>56</sup>

And OPASTCO points out that

[u]nder all of the plans in the Public Notice, each state would receive a fixed allocation of high-cost support. If state commissions distributed support without considering the type of carrier serving an area, it is likely that, in most cases, more federal

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<sup>55</sup> TDS at 10; see also CenturyTel at 12.

<sup>56</sup> Home/PBT at 4.

support would be directed to the non-rural carriers who have less of a need for it.<sup>57</sup>

(It should be noted that the Gregg proposal includes a SAM only in its long-range plan; the other proposals include immediate implementation of a SAM.)

NASUCA's proposals recognize differences between non-rural carriers (that remain on the statewide averaged forward-looking cost model); larger rural carriers with more than 100,000 access lines (that move to a forward-looking cost test, more nuanced than the current cost model<sup>58</sup>); rural carriers whose combined study areas within a state exceed 50,000 access lines (that lose local switching support through the combination); and the smallest rural carriers with fewer than 50,000 access lines (that are left on the current embedded cost mechanism).<sup>59</sup> This four-part approach is superior to the single demarcation between rural and non-rural, and would be far superior to an approach that combined all carriers into a single category. This is particularly true under the current non-rural high-cost formula.

Of course, maintaining and enhancing the distinction between rural and non-rural carriers does not mean that the current rural mechanism should remain untouched. OPASTCO says that the current mechanism "based on study area average embedded costs, is rational, accountable to the public and is achieving the universal service

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<sup>57</sup> OPASTCO at 14.

<sup>58</sup> For example, using a cost benchmark using just the larger rural carriers rather than one that includes non-rural carriers. This contrasts with the Baum, Nelson and USERP proposals that would look only at statewide average costs to determine support. Many of the smaller carriers reasonably object to this approach. See, e.g., NTCA at 3-6; OPASTCO at 11-13; WTA/ITTA at 13-14.

<sup>59</sup> NASUCA has asked the Commission to investigate how a forward-looking cost test could be adapted to the situation of all carriers, large, medium and small. As noted above, NASUCA's proposals do not include Alaskan and insular areas in the move to forward-looking costs.

objectives of the Act and the Commission.”<sup>60</sup> NASUCA submits that a mechanism that treats all rural carriers alike -- from Sprint with its two million lines in Florida to the smallest carrier operating in the Alaskan bush -- is straining the definition of rationality.

The reasoning of those who support eliminating the distinction between rural and non-rural is weak at best. For example, SBC says that “the Commission should eliminate the arbitrary distinction between ‘rural’ and ‘non-rural’ carriers based on the size of the company receiving support....”<sup>61</sup> Of course, the distinction SBC seeks to eliminate is contained in the law.<sup>62</sup> More importantly, distinctions based on the size of the company are not arbitrary, because large companies are to continue lawful intrastate implicit support.<sup>63</sup> If competition in some areas of its territory in fact removes the ability of a non-rural carrier to continue such implicit intrastate support, then the carrier’s first recourse should be to state ratemaking, then to state explicit universal service support, and then last to supplemental federal support. Tellingly, SBC does not point to a single state it serves where it is receiving inadequate support (i.e., where its rates are not affordable and reasonably comparable) as a result of being under the current non-rural mechanism.

Likewise, SureWest, despite saying that the current distinction results in “the flawed allocation of federal high cost funds, and the improper denial of such funds to

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<sup>60</sup> OPASTCO at 2; see also USTA at 2.

<sup>61</sup> SBC at 3.

<sup>62</sup> 47 U.S.C. § 153(47).

<sup>63</sup> See footnote 33. If competition undermines the ability to provide such implicit support within a state (SBC at 5), the first resort should be to intrastate support mechanisms, and the second resort to the federal backstop mechanism.

study areas that should receive it”<sup>64</sup> presents no information -- at least in this context, about “the high-cost characteristics of the area served by its local subsidiary, SureWest Telephone.”<sup>65</sup> One such “characteristic” is obvious from its comments: SureWest serves more than 1500 access lines per square mile of its territory,<sup>66</sup> almost 30 times the mean density of rural carriers with more than 100,000 access lines.<sup>67</sup>

Likewise, Maine/Vermont essentially argue that the current system gives inadequate support to the non-rural carriers in their states.<sup>68</sup> Yet their comments contain no information on which one could base a determination that the rural rates of Verizon, (both states’ only non-rural carrier) are not affordable or reasonably comparable to either the urban rates in that state or the national urban rate.<sup>69</sup> Notably, neither Maine nor Vermont has requested supplemental federal assistance, as did Wyoming.<sup>70</sup>

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<sup>64</sup> SureWest at 2.

<sup>65</sup> Id. at 4.

<sup>66</sup> Id. at 2 (130,000 access lines/83 square miles).

<sup>67</sup> See “The Rural Difference,” Figure 7.

<sup>68</sup> Maine/Vermont at 2.

<sup>69</sup> It is difficult to see how Verizon in Vermont could need more universal service support if the Vermont PSB was recently able to order an \$8 million annual rate reduction and a rate freeze. “Vermont Board Adopts New Verizon Alternative Regulation Plan,” Telecommunications Reports (October 15, 2005) at 30-31.

<sup>70</sup> See “Joint Petition for Supplemental Federal Universal Service Funds for Customers of Wyoming’s Non-Rural Incumbent Local Exchange Carrier” (December 21, 2004).

Balhoff and Rowe also support changes to the non-rural mechanism. They begin, however, with the charge that statewide averaging is one of the “failed policies” of the current non-rural program.<sup>71</sup> Unfortunately, they do not demonstrate that *statewide averaging* -- rather than any other particular aspect of the non-rural mechanism -- has, in any state, produced rural rates for the non-rural companies that are either not affordable or not reasonably comparable to urban rates. Thus their proposal to move “from statewide averaging to more targeted support”<sup>72</sup> is not driven by cause.

Indeed, the likelihood is that a “more targeted” analysis will only increase the requirements of the universal service fund, because it disregards the need for larger carriers to support rates throughout their state territories through permissible implicit support. Where actual competition makes such support problematic, the first recourse should be to explicit intrastate support mechanisms; where those are inadequate, support from the federal backstop mechanism can be sought.

## **V. THE OPPOSITION TO STATE ALLOCATION MECHANISMS IS WIDESPREAD AND REASONABLE.**

As previously mentioned, by far the most common theme in the comments is opposition to the SAMs (also referred to as “block-grant programs”) contained in the four proposals. Arguments and questions about block grants are raised by large carriers (AT&T, BellSouth, GCI, SBC), wireless carriers (CTIA, Nextel Partners, Sprint Nextel), state commissions and former commissioners (IUB, Balhoff & Rowe), but especially

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<sup>71</sup> Balhoff & Rowe at 45.

<sup>72</sup> Id.

small rural incumbents (FairPoint, Frontier, Home/PBT, NECA, NTCA, OPASTCO, TDS, WTA/ITTA). The variety of reasons against the SAMs is itself cause for concern. The paucity of support for SAMs is also notable.

AT&T says that “[c]onsideration of block-grant programs ... is premature.”<sup>73</sup> This is, first, because of the lack of detail in the proposals.<sup>74</sup> NASUCA agrees. AT&T also would give priority to intercarrier compensation reform,<sup>75</sup> specifically the adoption of the ICF proposals.<sup>76</sup> NASUCA vehemently disagrees.

Many commenters, like NASUCA, raise the issue of whether a SAM would be lawful under *USTA II*.<sup>77</sup> NTCA raises legal issues that do not include *USTA II*.<sup>78</sup> These views deserve serious consideration.

AT&T reserves its strongest criticisms for USERP, which, according to AT&T, “appear[s] to be sharply inferior.”<sup>79</sup> AT&T states that USERP “cobbles together a variety of approaches into one complex and somewhat internally inconsistent mishmash of rules....”<sup>80</sup>

Especially notable -- and graphic -- is Balhoff & Rowe’s opposition to the SAMs. Notable, because it is the opinion (at least in part) of former commissioner Rowe, who

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<sup>73</sup> AT&T at 2.

<sup>74</sup> Id. at 6.

<sup>75</sup> Id. at 7.

<sup>76</sup> Id. at 2.

<sup>77</sup> *USTA v. FCC*, 359 F.3d 554, 565-568 (D.C. Cir. 2004) (“*USTA II*”); see also AT&T at 7; Balhoff & Rowe at 51; Frontier at 10-11; Sprint Nextel at 14; TDS at 9.

<sup>78</sup> NTCA at 8-9; see also BellSouth at 3; CTIA at 14-15.

<sup>79</sup> AT&T at 8.

<sup>80</sup> Id.

one would expect to be sympathetic to giving more authority to state commissions. And graphic, in its description of the issue:

No job is messier than referee at a food fight. Moving away from the present formula-based system and passing off the allocation decision to state regulators would leave meatballs and marinara sauce on the faces of regulators from Augusta to Sacramento.

The food fight would be made worse (rocks in the meatballs) by any attempt to combine the small company program with the ... large company program. And the process would made worse still (bricks in the meatballs) by artificially capping an inadequate combined program at previous years' levels, further decoupling support from costs for all carriers.<sup>81</sup>

Especially given the need for “predictable and sufficient” support,<sup>82</sup> another Balhoff & Rowe point deserves emphasis: “Block grants ... are especially vulnerable to political and budgetary uncertainty, and generally costly to administer compared with the current formula-based approach.”<sup>83</sup>

Balhoff & Rowe also point out that the Joint Board and the FCC rejected the idea of block grants for the USF following passage of the Act and have consistently since.<sup>84</sup> FairPoint provides a good reason: “If each state were to establish its own unique rules and principles for the distribution of federal funds it would create a level of complexity, both in terms of policy implementation and administrative cost, which cannot be ignored.”<sup>85</sup> As Home/PBT also state, under SAMs, “[i]t would be likely that similarly situated carriers with similar cost characteristics could receive widely disparate funding

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<sup>81</sup> Balhoff & Rowe at 48.

<sup>82</sup> 47 U.S.C. § 254(b)(5).

<sup>83</sup> Balhoff & Rowe at 49; see also Frontier at 10, OPASTCO at 9.

<sup>84</sup> Balhoff & Rowe at 50-51; see also NTCA at 8, OPASTCO at 8, TDS at 7.

<sup>85</sup> FairPoint at 12; see also Frontier at 11-12, NTCA at 9-10, TDS at 7-8.

simply due to the fact that they were located in different states.”<sup>86</sup> WTA/ITTA gloomily concludes:

[T]he proposed transfer of responsibility for distribution of federal universal service support from the existing nationwide mechanism to fifty or so different state mechanisms will kill, suspend or delay many potential rural infrastructure investment projects unless and until small rural carriers can reliably predict that they will receive sufficient federal high cost support from their state commissions.<sup>87</sup>

Overall, the cautions of a state regulator that would be given tremendous responsibilities under the SAMs deserve consideration:

There would be a transfer of a great deal of effort and responsibility placed on the ... Board for the distribution and accountability of the USF high-cost funds. There remains a question as to how the Board would be allowed to recover the transactional costs to perform these functions. Further, in this period of less regulation, it appears that ... the [SAM] plans would actually increase the regulatory burden.<sup>88</sup>

OPASTCO lays out, step-by-step, the regulatory effort that would be required.<sup>89</sup> And TDS shows the increased administrative costs that would fall on the rural companies themselves.<sup>90</sup>

OPASTCO correctly notes that “[n]one of the proposals adequately justify how the supposed benefits of a block grant system outweigh the readily apparent

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<sup>86</sup> Home/PBT at 5; see also BellSouth at 4.

<sup>87</sup> WTA/ITTA at 12.

<sup>88</sup> IUB at 3.

<sup>89</sup> OPASTCO at 10-11; see also CTIA at 17-18.

<sup>90</sup> TDS at 8.

administrative costs, burdens and inefficiencies.”<sup>91</sup> And the comments in support of SAMs do little to address these concerns.

For example, Maine/Vermont say only that “[t]o the extent that state commissions generally have more direct control than any other regulatory authority over local exchange rates, it makes sense for states to allocate universal service support”<sup>92</sup> and that “states are likely to do a much better job of allocating universal service funds where they are needed.”<sup>93</sup> Qwest largely echoes these sentiments.<sup>94</sup> This is hardly enough justification for such a massive restructuring of the current system, with its attendant costs and risks.

**VI. CARRIERS’ SUPPORT SHOULD BE BASED ON THEIR OWN COSTS; WITH THE EXCEPTION OF SMALL RURAL INCUMBENTS, “COSTS” SHOULD BE FORWARD-LOOKING.**

The issue of which costs to use in calculating support and how those costs should be calculated are obviously contentious, and received a wide variety of comment. Consistent with NASUCA’s previous comments, we maintain our position that each carrier’s support should be based on its own costs, with non-rural carriers’ support being based on an improved forward-looking cost model, with large rural carriers’ support being based on the forward-looking model with modifications, and with small rural carriers’ support continuing -- for the meantime -- to be based on their embedded costs.

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<sup>91</sup> OPASTCO at 11.

<sup>92</sup> Maine/Vermont at 3.

<sup>93</sup> Id. at 4.

<sup>94</sup> Qwest at 14-15.

Where there are multiple ETCs designated, high-cost support for the competitive carriers' costs (whether wireline or wireless) should be capped at the level of the incumbent's costs.

One proposal that should be rejected out of hand is USTA's idea that ILECs currently receiving support should have the option of whether their support should be based on embedded or forward-looking costs.<sup>95</sup> It is not too difficult to imagine that a carrier's choice will be dictated by whichever costing method produces the most support for that carrier.<sup>96</sup> As noted at the outset, parsing parties' positions based on their place in the industry is not always productive. In the costing area, however, it appears that participants' choices are largely dictated by whatever will maximize their own support while minimizing the support for their competitors.

None of the commenters has adequately refuted the Commission's reasonable preference for support based on forward-looking costs. NJRPA extensively recites the Commission's basis for preferring forward-looking costs for this purpose.<sup>97</sup>

On the other hand, none of the commenters has effectively submerged the question of the reasonableness of the application of the current cost models to the smallest rural carriers. From this issue spring key parts of NASUCA's proposals:

Leaving the smallest rural carriers on embedded costs for now, moving larger rural

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<sup>95</sup> USTA at 6. Balhoff & Rowe would allow rural carriers this option for newly-acquired territories that require substantial investment. Balhoff & Rowe at 38. It is not clear how which carriers and which territories would be eligible would be determined.

<sup>96</sup> It is interesting that USTA would limit this choice to ILECs currently receiving support. Why not allow ILECs whose costs do not allow support under their current methodology to get it if changing to the other methodology would bring them support? (This hypothetical points up the key problem with USTA's option idea.)

<sup>97</sup> NJRPA at 4-6; see also CTIA at 4-5; Sprint at 9-10.

carriers to the forward-looking test, and exploring improvements to the current cost models as they apply to all carriers.

Unfortunately, few of the commenters provide much justification for their positions. For example, OPASTCO says that, for competitive ETCs, rather than “the Commission’s rules permitting them to receive the rural ILEC’s identical per-line support ... support for competitive ETCs in rural service areas should be based on their own embedded costs.”<sup>98</sup> The part of this that is unexplained is why these new entrants should get support based on their embedded costs, rather than costs produced by a forward-looking cost model. As Balhoff & Rowe point out, “RLEC support is based on costs already incurred; while ... equity analysts treat wireless CETC support as practically pure margin.”<sup>99</sup> The commenters that support using CETC embedded costs appear to do so in order to be justify the use of embedded costs for their own support calculation.<sup>100</sup>

As Balhoff & Rowe also point out, “the ‘identical support rule’ is a different methodology from either embedded or forward-looking cost support.”<sup>101</sup> The comments, once again, provide no real support for the proposition that CETC support should be based on ILEC costs, whether embedded or forward-looking.<sup>102</sup> To go back to the beginning: Federal universal service support is intended to ensure that rural rates are affordable and are reasonably comparable to urban rates. This requires support to be

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<sup>98</sup> OPASTCO at 16; see also ICORE at 9-10.

<sup>99</sup> Balhoff & Rowe at 36.

<sup>100</sup> See, e.g., OPASTCO at 16.

<sup>101</sup> Balhoff & Rowe at 35.

<sup>102</sup> See, e.g., Sprint at 7-8.

based on each carrier's costs -- that presumably drive the rates -- rather than on the costs of one carrier.

Those who attack the use of forward-looking costs models, and support using embedded costs for all rural carriers do so for inadequate reasons. For example, Home/PBT state that “[i]t has been demonstrated on many occasions that the use of such models results in large distortions in support calculations for many smaller, rural carriers.”<sup>103</sup> The “distortions” (more accurately, differences) come from the Commission's current model, which has seen no focused reform for many years now, much less reform directed at issues relating to smaller carriers. As Balhoff & Rowe state, “Over ... time there has been limited and sometimes no FCC staffing to maintain, update and correct the model, no systematic Joint Board attention to model operation, and limited industry attention.”<sup>104</sup> Those who support using only forward-looking costs fail to acknowledge these issues.<sup>105</sup>

On the other hand, those who support the exclusive use of embedded or accounting costs incorrectly assume that those booked costs are somehow more “real” than forward-looking costs. Their fundamental fallacy is the assumption that the amounts actually spent by carriers -- mostly carriers that still face little or no competition -- are equivalent to the costs that would be incurred by an efficient carrier facing competition.<sup>106</sup> The commenters provide no real support for that supposition.

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<sup>103</sup> Home/PBT at 7.

<sup>104</sup> Balhoff & Rowe at 38.

<sup>105</sup> See, e.g., CTIA at 4-5.

<sup>106</sup> See, e.g., TDS at 13.

Although NASUCA appreciates the efforts of the small telephone companies, there does not appear to be any realistic need, in the course of defending the use of embedded costs, to put these carriers on a pedestal, as some would do:

Rural ILECs, decade after decade, have built the infrastructure to make universal service a reality, not with FLEC or TELRIC or other cost model dollars, but with hard earned -- and often hard to come by -- United States currency. They have tirelessly invested in whatever equipment, facilities and services were required, at any particular time, to meet their social and regulatory obligations.<sup>107</sup>

Without disparaging the small companies, it is somewhat difficult to see that universal service support dollars have been “hard earned” or “hard to come by.”<sup>108</sup> Fundamentally, there is no reason why urban customers in other states should be required to pay their hard-earned (and often hard to come by) dollars to be the sole guarantors of 100% of the rural telephone companies’ expenses and investment.

NTCA supports the use of embedded costs by reference to the Rural Task Force findings.<sup>109</sup> Yet as shown in NASUCA’s RHC comments, these simple comparisons -- e.g., “the national average cost per line for rural ILECs was \$59.36 per line compared to an estimated \$23.52 per line for non-rural ILECs”<sup>110</sup> -- mask the extreme differences *among* rural carriers.<sup>111</sup>

Home/PBT also state that

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<sup>107</sup> ICORE at 6.

<sup>108</sup> The same can be said of inter- and intrastate access revenues.

<sup>109</sup> NTCA at 4.

<sup>110</sup> Id. (citation omitted).

<sup>111</sup> Comments of the National Association of State Utility Consumer Advocates on Rules Relating to Rural High-Cost Universal Service Support (October 15, 2004) at 15-17.

[e]ven if use of embedded costs creates some short-term economic incentive to over-invest in rural areas, this is a much more favorable outcome than under-investing. Individual state public service commissions are in a position to monitor investment in rural areas and act in those situations where inefficient spending might occur.<sup>112</sup>

Much more favorable for whom? The customers from whom the universal service funding is exacted? And it is interesting to note Home/PBT's reliance on state commission oversight here, just after their rejection of state authority as expressed in the SAMs.<sup>113</sup>

WTA/ITTA share Home/PBT's fear of state authority and support for embedded costs, but say further that "even if inefficiency and over-investment were actual and significant problems, they could be readily and effectively addressed and controlled by audits that would disallow investments and investment costs that were not reasonably and prudently made."<sup>114</sup> NASUCA's members' experience with performance audits is that such audits do not "readily" or entirely "effectively" address or control inefficiency or over-investment, although they may be necessary. WTA/ITTA apparently have no experience with the cost and difficulty of prudence audits, or with the difficulty of recovering costs determined to be inappropriate. As proposed by NASUCA, it would be far better to put larger rural carriers on a modified FLEC support diet; if the available "nutrition" is inadequate, the carriers will have resort first to state support (through rates and state USFs) and then to supplemental federal support if rates become no longer reasonably comparable.

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<sup>112</sup> Home/PBT at 7.

<sup>113</sup> Id. at 5.

<sup>114</sup> WTA/ITTA at 20.

Most of those commenting in support of the use of embedded costs would, in fact, be unaffected by NASUCA's proposals.<sup>115</sup> (That is, at least in the meantime until the forward-looking costs models are able to fit the smallest carriers.)

## **VII. RURAL ILECS WHO SAY THAT ONLY THE CETC FUND NEEDS TO BE RESTRAINED ARE HALF RIGHT.**

It is true that support for CETCs is the fastest-growing segment of the high-cost fund.<sup>116</sup> Yet the rural ILECs and their representatives who suggest that this is the main problem with the fund<sup>117</sup> ignore the fact that the rural ILEC share of the fund remains the largest, with the non-rural ILEC segment in third place, after the schools and libraries program.<sup>118</sup> For example, CenturyTel says that “[t]he size of the ILEC high-cost fund is capped, and therefore *cannot* grow.”<sup>119</sup> This is belied by the facts: although 87% of the growth in the high-cost fund can be attributed to CETCs over the period 3Q03-4Q05, nonetheless the ILEC portion did grow.<sup>120</sup> OPASTCO points to changes in the rural high-cost fund from the fourth quarter of 2004 to the fourth quarter of 2005.<sup>121</sup> This short-term analysis should not be the basis of far-reaching decisions on the fund. Increases to the

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<sup>115</sup> See Appendix A. Among those that would not be affected by NASUCA's proposals are Home/PBT, the ICORE companies, the members of NTCA, and the members of WTA and ITTA.

<sup>116</sup> Balhoff & Rowe at 21.

<sup>117</sup> See, e.g., OPASTCO at 16.

<sup>118</sup> NASUCA Initial Comments, Appendix A at 10-11.

<sup>119</sup> CenturyTel at 3 (emphasis in original).

<sup>120</sup> NASUCA Initial Comments, Appendix A at 12.

<sup>121</sup> OPASTCO at 15.

ILEC portion of the rural high-cost fund represented 21% of the increase in the rural fund over the period 1Q04-4Q05.<sup>122</sup>

CETC high-cost funding should be a matter of concern. However, the ILEC high-cost fund (both rural and non-rural) should *also* be of concern.

### **VIII. THE CONTRIBUTION BASE SHOULD BE EXPANDED.**

Regardless of what happens to the rural high-cost fund, the non-rural high-cost fund, or the CETC high-cost fund; regardless of whether any or all of the four proposals are adopted; and regardless of whether any or all of stakeholders' other proposals are adopted, the Joint Board should recommend and the Commission should implement measures to increase the contribution base for the fund. This is outside the boundaries of three of the four proposals, but is part of former Commissioner Nelson's Holistically Integrated Package ("HIP"). Other commenters recognize the importance of this issue.<sup>123</sup>

There are suggestions that a more fundamental change in the contribution mechanism is needed, i.e., "basing support on connections, number and number equivalents, capacity-based charges, or some combination."<sup>124</sup> As NASUCA has consistently argued, such changes are in fact unnecessary if the steps of limiting the size of the fund and broadening the contribution base are taken.<sup>125</sup> Further, as CenturyTel states,

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<sup>122</sup> Derived from USAC quarterly filings.

<sup>123</sup> See, e.g., Balhoff & Rowe at 55; CenturyTel at 6-8; Frontier at 3; NTCA at 14; OPASTCO at 18-19; TDS at 14-15.

<sup>124</sup> Balhoff & Rowe at 54; see also CenturyTel at 8.

<sup>125</sup> See NASUCA Initial Comments, Appendix A.

[T]he new rules must not unduly burden residential users or economically disadvantaged communities. Imposing the same charge on every residential and business connection would disproportionately impact rural communities, where business customers are a smaller part of the population, and use a much smaller proportion of the telecommunications and information services, than they do in urban areas.<sup>126</sup>

Those who view a connections- or numbers-based approach as a solution to a problem both inflate the extent of the problem and underestimate the negatives of the solution.

## IX. CONCLUSION

The central purpose of the high-cost portion of the USF is to ensure that rural rates are affordable and are reasonably comparable to urban rates. The Commission has recognized the conundrum implicit in basing support primarily on rates: Given the variety of rate structures -- particularly with regard to local calling areas -- and the variety of state ratemaking authority, there is no assurance that federal support is needed to ensure that a particular rate is affordable or reasonably comparable. Hence the Joint Board and the Commission have focused first on **costs**: All else being equal, it is relatively safe to assume that higher costs will produce higher rates; at some point those higher costs will produce rates that are not affordable or not reasonably comparable to urban rates.

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<sup>126</sup> CenturyTel at 9. CenturyTel's support for a "modified numbers-based approach ... in which the amount assessed for each high-capacity connection is a multiple of the amount assessed for each lower capacity connection..." (id.; citation omitted) does not address the issue that the numbers-based approach assesses customers based on access to, rather than actual usage of, the network.

But at this point, neither the Commission nor the Joint Board have been able to arrive at definitions of “affordable” or of “reasonably comparable” that can withstand appellate review. Hence there is no way to determine whether the federal USF is “sufficient” to meet its statutory purposes. NASUCA submits that developing workable definitions of these terms must be one of the highest priorities of both the Joint Board and the Commission.

Even higher in priority, however, should be the examination of the reality of and the reasons for the recent reported decline in telephone subscribership. If there has been such a decline, the Commission must determine how to reverse this trend, which is completely contrary to the statutory purpose. If the “decline” is merely an artifact of flaws in methodology, then the methodology will have to be fixed.

Once these highest-priority items are addressed, then the Joint Board and the Commission can determine how to fit the fund to its statutory purposes, ensuring that it is sufficient to meet those purposes, but not more than sufficient. Unfortunately, with the exception of Mr. Gregg’s proposal, the proposals put out for comment by the Joint Board do not have a clear focus on the statutory purposes. That means that consideration of these proposals should not be a priority for the Joint Board or for the Commission. There are numerous other items, such as those described in Appendix A to NASUCA’s initial comments, that deserve consideration first.

Nextel Partners propose the creation of a new Rural Task Force “to develop a cost methodology for use in revising the rural high-cost support mechanism.”<sup>127</sup> Perhaps that makes sense... but only after the high-priority issues just identified are resolved.<sup>128</sup>

Respectfully submitted,

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<sup>127</sup> Nextel Partners at 14.

<sup>128</sup> NASUCA’s support for the formation of a new Rural Task Force should not be seen as support for the specific principles that Nextel Partners say should guide the task force.

Incumbent Carriers Impacted by NASUCA Rural High-Cost Proposals

STATE	Company	Loops	Decrease in Support from Moving to High-Cost Model	Decrease in Support from Loss in Local Switching Support	Decrease in Support from Combining Rural Carriers with Non-rural Affiliates	Total Decrease in Support	Total Decrease in Support Per Loop	Monthly Decrease in Support Per Loop
AR	Century	264,837	21,786,818	1,984,421		23,771,239	89.76	7.48
AZ	Citizens <sup>1</sup>	165,471	11,476,194	3,396,713		14,872,907	89.88	7.49
CA	Citizens	154,548	13,810,020	617,457		14,427,477	93.35	7.78
CA	Verizon	4,496,989			571,097	571,097	0.13	0.01
CO	Century	95,889		400,627		400,627	4.18	0.35
FL	FairPoint	52,984		685,730		685,730	12.94	1.08
GA	Alltel	597,972	26,703,420	716,774		27,420,194	45.86	3.82
ID	Qwest	525,681			560,778	560,778	1.07	0.09
ID	Verizon	131,917	4,675,032			4,675,032	35.44	2.95
IL	Verizon	806,592			848,671	848,671	1.05	0.09
IN	Verizon	961,368			354,283	354,283	0.37	0.03
KY	Alltel	561,022			2,202,524	2,202,524	3.93	0.33
LA	Century	102,283	19,208,896	2,520,872		21,729,768	212.45	17.70
ME	FairPoint	63,865		1,581,796		1,581,796	24.77	2.06
MI	Century	105,571	5,665,384	997,035		6,662,419	63.11	5.26
MN	Citizens	263,851	1,861,089	271,720		2,132,809	8.08	0.67
MO	Century	341,344			1,587,105	1,587,105	4.65	0.39
MO	Sprint	239,627	826,428			826,428	3.45	0.29
NC	Alltel	232,584	13,704			13,704	0.06	0.00
NM	Valor	93,979		2,609,999		2,609,999	27.77	2.31

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<sup>1</sup> References to “Citizens” in this table are to the Frontier and Citizens ILECs that are referred to as “Frontier” in the body of the comments.

STATE	Company	Loops	Decrease in Support from Moving to High-Cost Model	Decrease in Support from Loss in Local Switching Support	Decrease in Support from Combining Rural Carriers with Non-rural Affiliates	Total Decrease in Support	Total Decrease in Support Per Loop	Monthly Decrease in Support Per Loop
NY	Alltel	99,457		518,243		518,243	5.21	0.43
NY	Citizens	858,862			7,344,036	7,344,036	8.55	0.71
PA	D&E	144,577		377,473		377,473	2.61	0.22
	Low							
SC	Country	74,066		678,492		678,492	9.16	0.76
SC	Rock Hill	144,539	5,941,353	1,322,476		7,263,829	50.26	4.19
SC	Verizon	201,734			811,889	811,889	4.02	0.34
TN	Citizens	95,972		450,424		450,424	4.69	0.39
TN	Sprint	263,089		654,084		654,084	2.49	0.21
TN	TDS	103,426	2,379,660	1,124,908		3,504,568	33.88	2.82
TX	Alltel	112,972	1,380,384	471,704		1,852,088	16.39	1.37
TX	Sprint	384,171	20,716,080			20,716,080	53.92	4.49
TX	TXU	164,632	3,894,336	1,384,854		5,279,190	32.07	2.67
TX	Valor	340,350	1,818,852	572,351		2,391,203	7.03	0.59
VA	Sprint	398,761	412,692			412,692	1.03	0.09
VA	Verizon	3,950,936			788,060	788,060	0.20	0.02
WA	Century	184,216	11,200,596	72,846		11,273,442	61.20	5.10
WI	Century	464,965	10,617,516	4,113,645		14,731,161	31.68	2.64
WI	Citizens	70,830		2,611,251		2,611,251	36.87	3.07
WI	TDS	154,342	3,620,628	4,594,728		8,215,356	53.23	4.44
WV	Citizens	157,084	1,113,474	1,690,959		2,804,433	17.85	1.49
Totals		18,627,355	169,122,556	36,421,582	15,068,443	220,612,581	1154.63	96.22
Avg per carrier (w/o Citizens LA)		465,684					23.55	1.96